The TaxLetter®

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TAX-FILING ***TIPS***

It's that time of year again! With these tax tips in mind you can…

Dig for savings

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The deadline for RRSPs has come and gone.

With tax filing season now ahead, it's time to put on your thinking cap and dig out your calculator to find extra savings before filing your return.

And for those of you who have come to a dead end calculating your expenses, read on to see how these tax filing tips may help reduce your tax bill even further.

Make the Most of Your Losses

Take a close look at your investment balance sheet to see if there are any losses that might have been triggered in 2011.

If so, you are allowed to file a "loss carry back" and claim the losses against previous years' capital gains.

But before you file a carry back, you must use your losses against 2011 capital gains (if you have any) until they are nil before you can go back to prior years.

In addition to losses on the market, loss candidates could include bad loans such as junk bonds, a no-good advance to your company or business associate and even investments in companies that have gone bankrupt or are now worthless and out of business.

CSB payroll deduction

If you purchased Canada Savings Bonds (CSBs) on the payroll deduction plan, you probably paid some interest. Your controller or personnel department can tell you the amount. It's deductible.

Don't claim an RRSP contribution

Despite all instincts to the contrary, making a claim may not be the right choice for 2011. It's possible to make an RRSP contribution, but actually defer a deduction claim until a later year. This may be a good strategy if you expect to go into a higher tax bracket in the next couple of years.

Along the same lines, if you're thinking of making a large catch-up contribution, be careful if the deduction you claim is so large that it throws you into a lower tax bracket.

A better approach might be to make the catch-up contribution, but defer claiming the actual write-off.

File returns for your kids

Even if a return is not required, kids with employment income should still file because salary income builds RRSP contribution room.

By filing returns when kids are young, a catch-up contribution can be made later, based on 18 per cent of their accumulated salaries. And, tuition and education credits which are unneeded to reduce the amount to zero tax can be transferred or carried forward for use in future years.

Filing a tax return may also entitle the student to a refund of tax withheld on a summer or part-time job.

Older students may be entitled to receive cash from the government; although the student may not owe any tax, a number of credits are linked to income, such as GST and provincial tax credits.

A student may also claim a tax credit for interest on student loans under the Canada Student Loans Act or similar provincial laws.

Unlike tuition, textbook and education credits, this credit is not transferable. The interest itself may be paid by the student or a person related to the student.

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If investment income earned by the child was funded by parents, the "attribution rules" generally apply to tax the investment income (other than capital gains) in the hands of the parents.

However, if the child has turned 18 years old in 2011 or an earlier year, the attribution rules no longer apply. The child can report the investment income on his or her return, based on his or her tax rates.

Reserves

If you sold an investment for a capital gain, but you're not entitled to receive cash proceeds until after the end of the year, you're allowed to defer a portion of your capital gain by claiming a reserve.

Reserves on capital gains may enable you to defer your tax over a five-year period.

Claim interest on disappearing investment

If you have borrowed money for an investment or business that has been sold at a loss or gone belly-up, but are still stuck with making interest payments, that interest may continue to be deductible (Note – if you have managed to salvage some proceeds and the money is put to personal use rather than re-invested, a portion of your continuing interest charges won't be deductible).

One unhappy exception to this rule is real estate. However, this exception applies only if the real estate is "directly held." In this case, the interest charges should continue to be deductible e.g., if the real estate was held in a partnership or a company.

A Supreme Court case (*Tennant v. The Queen*, handed down in 1996) validates continuing interest deductions for real estate if you have managed to salvage some proceeds from the investment which are then re-invested.

Deductions for employees

Contrary to what many people believe, there are lucrative deductions available to employees. Here are some of the most important:

✎ Home office expenses - This deduction applies to situations where the office either is the principal place where the employment duties are performed (which may not always be the case), or the home is used exclusively for employment purposes and, on a regular and continuous basis, for meeting customers or others in the course of performing employment-related duties.

If you rent your home, you can take a prorated portion of rent expenses.

If you own your home, CanRev's position is that only certain expenses can be claimed – generally, maintenance expenses such as heating fuel, electricity, cleaning and minor repairs.

Expenses such as depreciation, taxes, insurance and mortgage interest will not be allowed (special rules apply to commission sales employees).

By the way, home office write-offs can also be claimed against business and professional income. CanRev technicals released in the early 2000s have indicated that that the write-off might be claimed against rental income and possibly other types of investment income, if justifiable.

✎ Auto expenses - Employees who receive mileage allowances will have the option of adding these amounts to their taxable income and claiming actual motor vehicle expenses (in some cases, the add-back will be mandatory).

To be eligible to claim motor vehicle travelling expenses, an employee must ordinarily be required to carry on employment duties away from the employer's place of business.

✎ Supplies/salaries to an "assistant" - A deduction is allowed for supplies which are required to be furnished under your employment agreement. These must be items that are "used up" or "consumed."

Potentially, this could include stationary, pens, pencils, tape, computer paper supplies, ink cartridges, or storage discs which can't be reused.

CanRev also allows long-distance telephone calls and cellular telephone airtime that relates to the earning of employment income – but not monthly basic telephone charges or hook-up costs, or special clothing or books.

Salaries to an assistant are deductible, which may include the cost of stenographic and secretarial assistance.

To claim these write-offs, you must complete Form T2200 – signed by your employer – which certifies that as part of your employment agreement you are required to maintain a home office and/or pay part or all of these expenses.

✎ Legal fees - The Tax Act allows employees to deduct legal expenses for collecting salary or wages from an employer or former employer.

This includes legal fees for collecting amounts owing and/or establishing your legal right to the salary or wages to begin with.

A related rule allows a deduction for legal expenses for most pension benefits and most job severance payments ("retiring allowances").

However, in this case, the deduction available in any year is limited to the amounts on which you pay tax – that is, minus amounts "rolled over" into an RRSP or registered pension plan. (This tax break is available for employment prior to 1996.)

Any excess legal expenses can be deducted against taxable retiring allowances and pension benefits received in subsequent years, for up to seven years into the future. ❐